

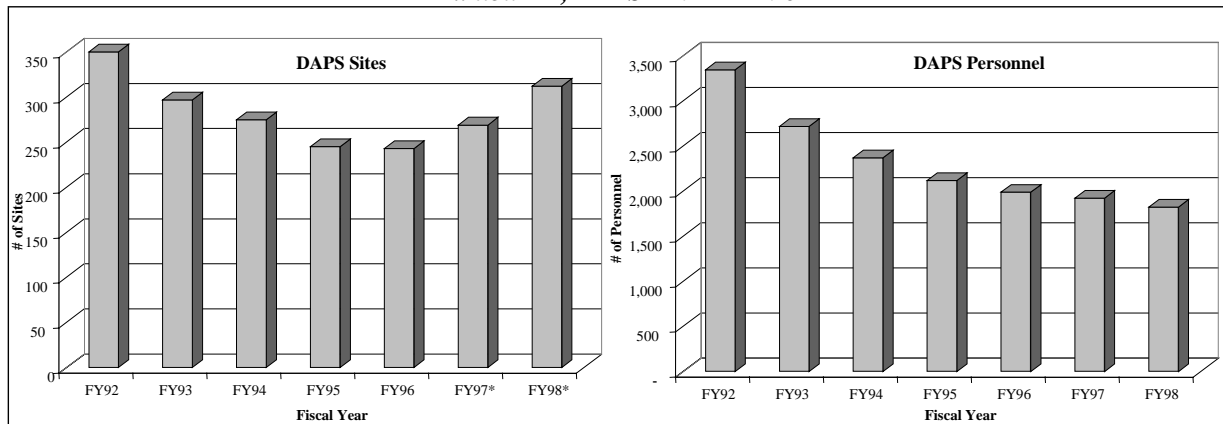
SECTION 4: DAPS OVERVIEW

Introduction

The Defense Automated Printing Service (DAPS), a component of the Defense Logistics Agency (DLA), is responsible for providing printing, reproduction, and document automation services to the Department of Defense (DoD). DAPS consists of over 300 locations in 14 countries and United States territories plus a headquarters component. DAPS field sites are typically co-located with military bases and provide support almost entirely to military customers, although they also provide support to the White House and General Services Administration.

On October 1, 1996, DAPS was reassigned to the Defense Logistics Agency and therefore came under the Working Capital Fund. What is today known as DAPS was in the past known by a number of different names. The Defense Printing Service (DPS) was established in 1992 from the Navy Printing Service. DPS, and subsequently DAPS, was tasked to consolidate the printing, duplicating, and document automation resources for DoD. In an effort to consolidate resources, DAPS has acquired, and closed, a number of sites since FY92. In just the last two years DAPS has taken over operations at 166 sites while closing 97 in that same time period. Exhibit 4-1 shows the progress that DAPS has made in the reduction of personnel within DoD and the consolidation of sites into DAPS.

Exhibit 4-1, DAPS FY92 – FY98

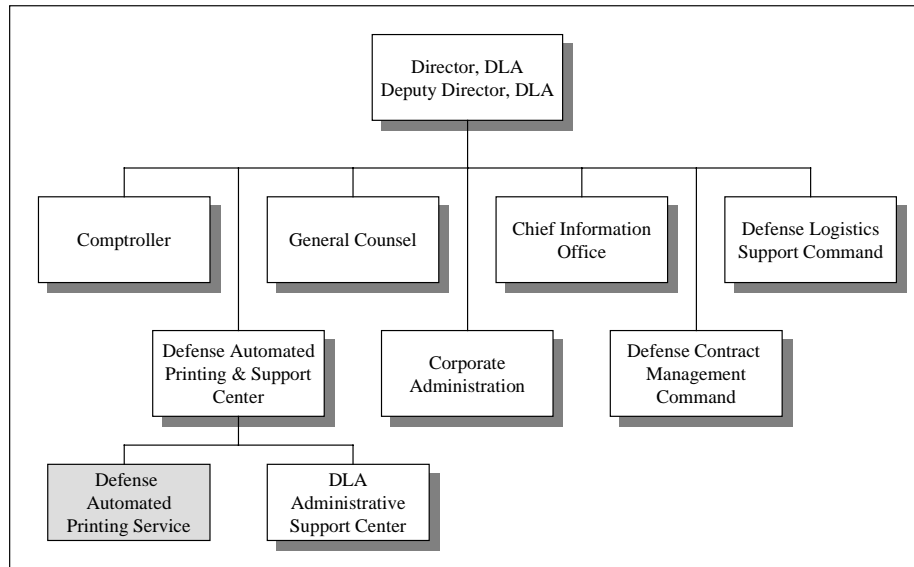


* In FY97-FY98, DAPS took over operations at 166 sites and closed 97

Organization Structure

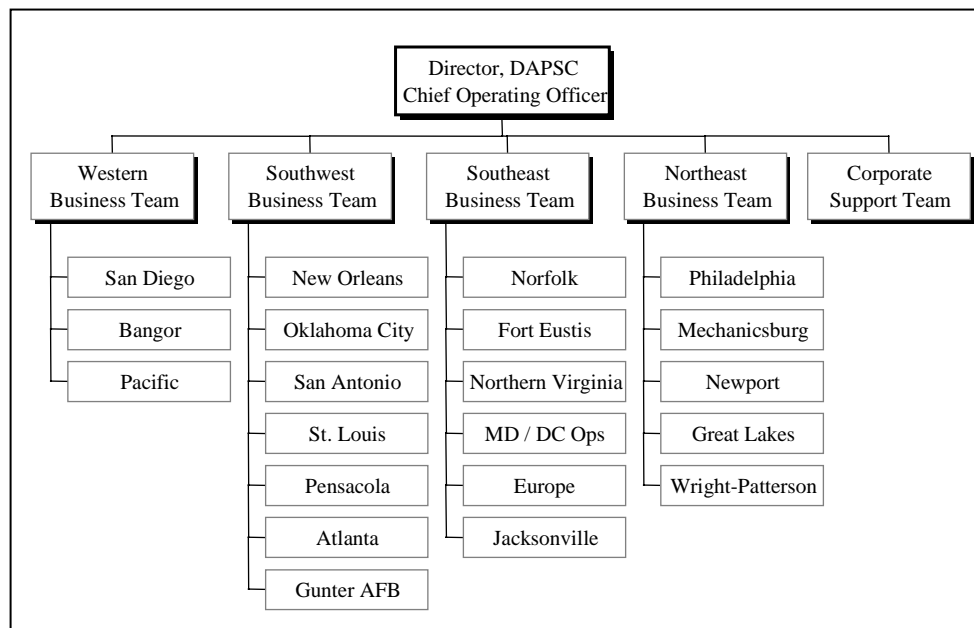
DAPS, being a component of the Defense Logistics Agency, reports to the Director of DLA through the Defense Automated Printing and Support Center (DAPSC) as shown in Exhibit 4-2. The DAPS Chief Operating Officer reports to the Director of DAPSC.

Exhibit 4-2, DAPS within DLA



The DAPS organization is made up of a Chief Operating Officer, Regional Business Teams and a Headquarters Component known as the Corporate Support Team (CST) as shown in Exhibit 4-3. DAPS operates as a decentralized organization. Regional Business Team Directors are empowered to serve their customers needs within their respective geographic areas.

Exhibit 4-3, DAPS Organization Structure



DAPS takes a team approach to managing DoD's printing business. The Director of DAPSC and the DAPS Chief Operating Officer are responsible for developing DAPS strategic vision and communicating direction from a strategic level for the entire DAPS organization. A Corporate Board, made up of the heads of the Business Teams and other key positions are responsible for Policy and Strategy. The Regional Business Teams oversee the day to day operations of the production plants within their geographic area. Production-plants consist of an on-site production facility and sub-plants typically located in relatively close proximity to the main plant. Sub-plant expenses and revenues are aggregated to the plant level for reporting purposes.

Site Locations

DAPS is located at many of the U.S. military installations throughout the world. DAPS has 78 plants worldwide that report to their respective business team. Exhibit 4-4 shows the DAPS plants by location.

Exhibit 4-4, DAPS Plant Locations

Alabama Army Corps of Engineers, Mobile Ft. Rucker Gunter AFB, Montgomery Redstone Arsenal	Georgia Engineer Dist., Savannah Ft. Benning Ft. Gordon Kings Bay Warner-Robins AFB	Missouri Kansas City St. Louis	Pennsylvania Def. Per. Support Center Mechanicsburg Philadelphia	OCONUS Alaska Anchorage
California DLI Monterey NAWAD, Corona North Island Point Loma Port Hueneme Sacramento San Diego	Illinois Great Lakes Rock Island Scott AFB	Nebraska Omaha	Rhode Island Newport	Cuba Guantanamo Bay
Colorado Denver, Aurora Ft. Carson, Colorado Springs	Indiana Indianapolis	New Hampshire Portsmouth	South Carolina Charleston	Germany Ramstein
Connecticut New London	Kentucky Ft. Knox	New York West Point Academy	Texas Ft. Bliss, El Paso Ft. Sam Houston, San Antonio GSA, Fort Worth Kelly AFB, San Antonio Lackland AFB, San Antonio	Guam Guam
Florida Eglin AFB, Valparaiso Jacksonville Patrick AFB Pensacola	Louisiana New Orleans	North Carolina Camp Lejeune Ft. Bragg		Hawaii Pearl Harbor
	Maryland Aberdeen Prov. Grounds Naval Academy Patuxent River White House (MD/DC Ops)	Ohio Cleveland Columbus Wright Patterson AFB, Dayton	Utah Hill AFB, Ogden	Japan Japan Okinawa
	Mississippi Keesler AFB, Biloxi Vicksburg	Oklahoma Ft. Sill, Lawton Oklahoma City	Virginia Ft. Eustis Ft. Lee Norfolk Northern VA Operations Pentagon Portsmouth Quantico	Korea Osan
		Oregon Portland	Washington Bangor Puget Sound	Puerto Rico Roosevelt Roads
				Spain Rota

As of the end of FY98, DAPS had 320 locations, including Plants and Sub-Plants. Appendix A contains a complete listing of DAPS locations for FY98. Since that time, DAPS has reduced this number to 311 locations. Exhibit 4-5 shows the current DAPS locations.

Exhibit 4-5, DAPS Current Plant and Sub-Plant Locations

ALASKA Elmendorf AFB Wainwright Eielson AFB Fort Richardson Fort Wainwright	COLORADO Aurora *(2) Denver Falcon AFB Fort Carson Peterson AFB *(2) USAF Adademy *(2)	GEORGIA Fort McPherson Albany Athens Atlanta Dobbins AFB Forest Park Fort Benning Fort Gordon Fort Stewart Kings Bay *(3) Robins AFB *(2) Savannah	LOUISIANA Barksdale AFB Fork Polk New Orleans	MONTANA Billings Malmstrom AFB	NORTH DAKOTA Grand Forks AFB Minot AFB	TEXAS Brooks AFB Corpus Christi Dyess AFB Fort Bliss *(2) Fort Hood *(2) Fort Sam Houston *(2) Fort Worth Kelly AFB Lackland AFB *(2) Randolph AFB *(2) Sheppard AFB Texarkana	WASHINGTON Bremerton Fairchild AFB Fort Lewis Silverdale Walla Walla Whidbey Island	GUAM COMNAVMAV	
ALABAMA Anniston Birmingham Fort McClellan Fort Rucker Maxwell AFB *(2) Mobile Redstone Arsenal	CONNECTICUT Groton, CT DISTRICT OF COLUMBIA Washington, DC *(9)	HAWAII Pearl Harbor *(5)	MASSACHUSETTS Bedford Boston Natick Waltham MARYLAND Aberdeen Andrews AFB Annapolis Baltimore Bethesda Fort Meade Frederick Indian Head Patuxent River	NEBRASKA Offutt AFB Omaha	OHIO Cleveland Columbus *(2) Dayton	OKLAHOMA Altus AFB Fort Sill McAlester Tinker AFB Tulsa	UTAH Hill AFB Salt Lake City Tooele	WISCONSIN Sparta WEST VIRGINIA Huntington	
ARKANSAS Little Rock *(2)	DELAWARE Dover	IDAHO Mointain Home AFB	MICHIGAN Battle Creek Selfridge Warren	NEW HAMPSHIRE Portsmouth *(3)	NEW JERSEY Bayonne Fort Dix Fort Monmouth Lakehurst Picatinny Arsenal	OREGON Portland	UTAH Hill AFB Salt Lake City Tooele	WYOMING F.E. Warren AFB	
ARIZONA Davis-Monthan AFB Fort Huachuca Luke AFB	FLORIDA Cape Canaveral Eglin AFB Homestead ARS Hurlburt Field AFB Jacksonville *(5) MacDill AFB Mayport Orlando Panama City Patrick AFB Pensacola *(4) Tyndall AFB	ILLINOIS Champaign Chicago Great Lakes Rock Island Savanna Scott AFB	MICHIGAN Battle Creek Selfridge Warren	NEW MEXICO Kirtland AFB Albuquerque *(2) Cannon AFB Holloman AFB White Sands	PENNSYLVANIA Carlisle Chambersburg Mechanicsburg New Cumberland Philadelphia *(5) Pittsburgh Tobyhanna	VIRGINIA Alexandria Arlington *(3) Charlottesville Chesapeake Dahlgren Fort Belvoir *(2) Fort Eustis Fort Lee Fort Monroe Langley AFB Norfolk *(6) Portsmouth *(4) Quantico Richmond Suffolk Virginia Beach *(2) Yorktown	AZORES Lajes Field	NETHERLANDS Schinnen	
CALIFORNIA China Lake Edwards AFB Lemoore NAS McClellan AFB *(2) Monterey *(2) Norco *(5) Oakland Onizuka Point Mugu Port Hueneme *(2) Sacramento San Diego *(8) Stockton Travis AFB Vandenberg AFB	INDIANA Crane Indianapolis *(2)	KANSAS Fort Leavenworth Fort Riley McConnell AFB	MINNESOTA St. Paul	NEW YORK Fort Drum Griffiss AFB New York Watervliet West Point	RHODE ISLAND Newport *(3)	SOUTH CAROLINA Charleston *(3) Fort Jackson Shaw AFB	CUBA Guantanamo Bay	GERMANY Bad Kreuznach Grafenwoehr Hanau Heidelberg Kaiserslautern Mannheim Ramstein Roedelheim Spangdahlem Stuttgart Wuerzburg	
	KENTUCKY Fort Campbell Fort Knox Louisville *(2)	MISSISSIPPI Columbus AFB Keesler AFB Vicksburg	MISSOURI Fort Leonard Wood Hazelwood Kansas City *(2) St. Louis Whiteman AFB	NEVADA Nellis AFB	NORTH CAROLINA Camp Johnson Camp LeJeune Cherry Point Fort Bragg *(2) Pope AFB Seymour Johnson AFB	SOUTH DAKOTA Ellsworth AFB	TENNESSEE Millington Nashville	SPAIN Rota	TURKEY Incirlik
								UNITED KINGDOM RAF Lakenheath RAF Mildenhall	
									<i>* Number of facilities in the geographical area</i>

* Number of facilities in the geographical area

As can be seen by reviewing the exhibit, more than one-third of DAPS sites are located either on the same base or within the same city as one or more other DAPS sites. The perceived redundancy created by multiple DAPS sites being located in close proximity to other DAPS sites indicates a potential for further consolidation within DAPS. This topic is covered in greater detail in the DAPS Capacity and Utilization portion of this section of the report.

Functions

DAPS primary services include electronic printing and duplication, document automation, copier contract management, and acting as a conduit to the Government Printing Office for commercially outsourced printing. DAPS accounting system collects costs using eight departments. Department #9 (there is no department #8), Miscellaneous Revenue, accumulates intra-DAPS transfers and premium service charges, and accounted for a relatively minor \$270 thousand in revenue (with no direct expenses) in FY98. Due to the “catch-all” nature and minimal size of this department, KPMG has not included it in this review. KPMG used DAPS remaining seven primary departments as a starting point to identify the functions of DAPS. The departments are described below:

Document Automation. Includes desktop publishing (i.e. revisions, forms creation, proofing), data scanning and conversion, web page design, and digital products (CD-ROM).

Electronic Output. Includes mainframe, high volume, and low volume electronic output, Leave and Earning Statement (LES) production, preparation for electronic printing, post-printing bindery operations, and paper. Also included in this department is the Standardization Program which inputs and archives files (e.g. specifications, technical manuals, subscriptions, etc.) and print on demand capability allowing customers to print documents when needed.

Offset Duplicating / Printing. Includes offset duplication and printing preparation, offset printing and duplication (performed primarily outside of the continental United States), silkscreening, post printing folding/collating and bindery operations, paper, and packaging.

Reproduction. Includes producing engineering drawings, color copies, and color printouts.

Microfiche. Includes the production of microfiche and aperture cards.

Outsourcing. Includes the management of orders outsourced through the Government Printing Office and quantity contracts for copiers and multifunctional devices.

Miscellaneous Processes / Projects. Includes services and supplies for addressing, mailing, and delivery of products. Also included are the production of metal photo plates, specialty target paper, and lamination services.

Upon the completion of an initial review of DAPS financial information and through site visits and discussion with industry, KPMG identified the DAPS departments as their functions. These functions served as the foundation for comparing DAPS with other public and commercial entities. In accordance with the legislation a listing of DAPS products is included in Appendix B.

Financial Information

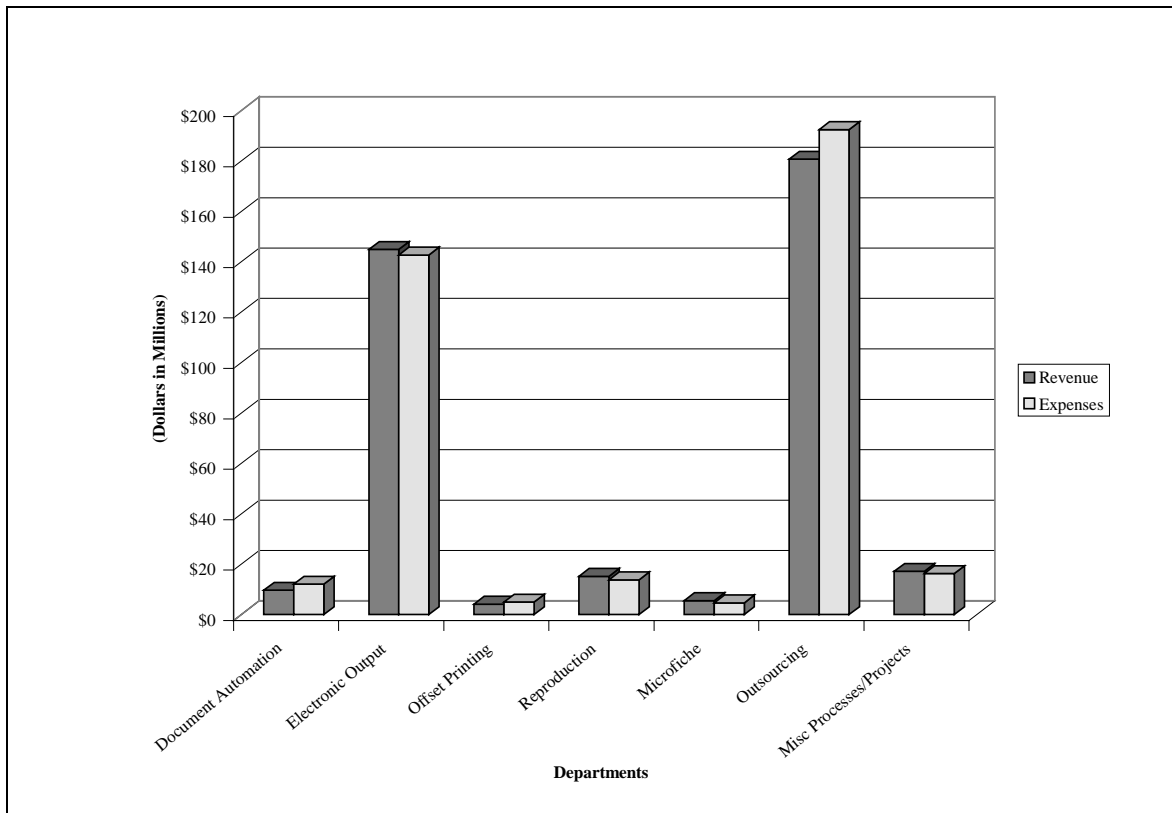
DAPS is a Defense Working Capital Fund activity, and as such, budgets to cover costs with offsetting revenue. Accounting records for DAPS are maintained by the Defense Finance and Accounting Service (DFAS) Cleveland Center, Ohio. Field level accounting work is performed by the DFAS Charleston Operating Location in South Carolina. Prior to DAPS being established, the Defense Printing Service maintained its own accounting system, the Printing Resource Management Information System (PRMIS). Because PRMIS was not in compliance with GAO accounting principles and standards, DFAS replaced PRMIS with the Defense Working Capital Fund Accounting System (DWAS) in FY97. FY98 was DAPS first full year operating with DWAS. While there are some reported issues with DWAS on the budgetary side, DAPS believes that revenue and expense data is, at the aggregate level, reflective of their operations.

While DWAS, at the aggregate level, is reflective of DAPS operations, at the plant level, some plant managers have expressed concern with DWAS reporting. Several of the managers interviewed by KPMG believe that DWAS does not provide them with reports that give the

information necessary for management decisions. The reports that are available were said to be frequently inaccurate, with misstatements in labor expenses and accounts payable/receivable the most frequently cited mistakes, and have led to ad hoc reports being produced at the local sites to support local management of operations.

For this analysis, KPMG is utilizing the data contained in DWAS at the aggregate level for FY98. Exhibit 4-6 shows total DAPS revenues and expenses by department. FY98 DAPS total revenue was \$378 Million, and total expenses were \$387 Million, for an overall loss of \$9 Million.

Exhibit 4-6, DAPS FY98 Revenue and Expenses by Department



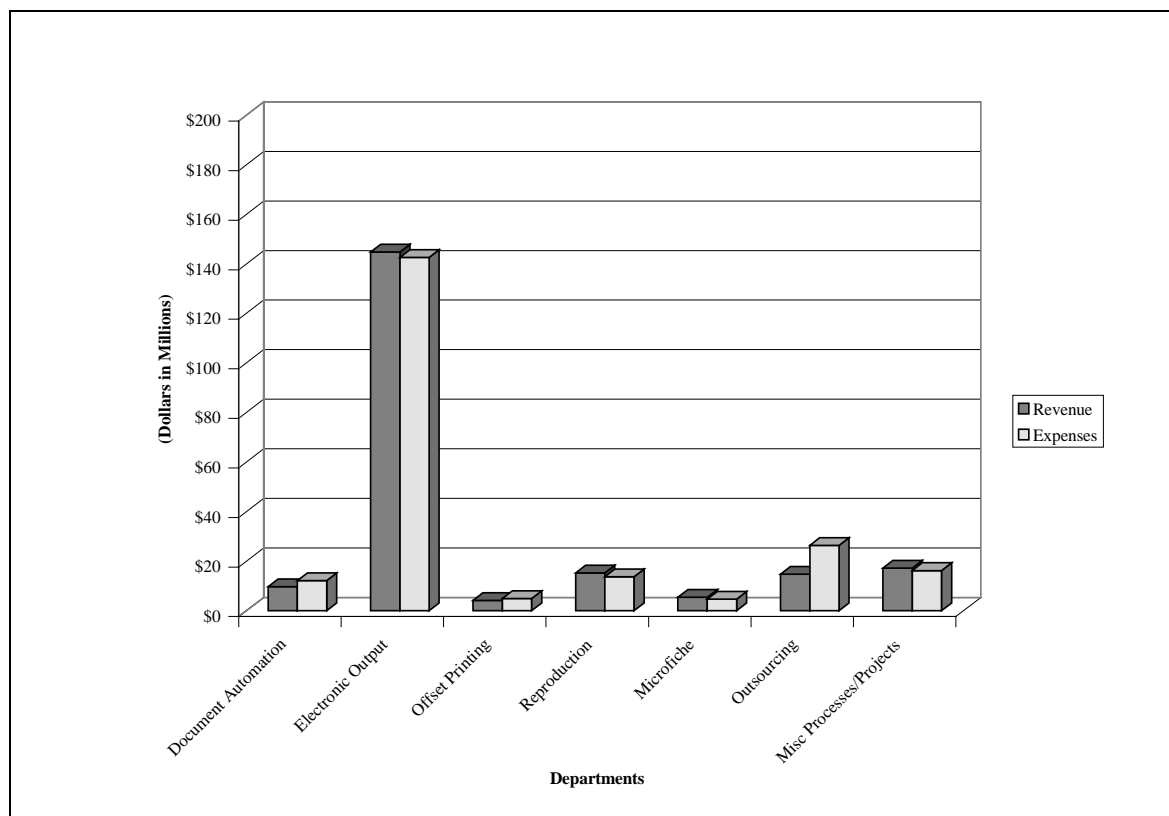
This exhibit clearly illustrates DAPS two primary revenue sources, electronic output and outsourcing. Electronic output consists primarily of black and white duplicating services. The source documents for electronic output may come from hard copy, disk, or network. As will be seen in the following discussion of outsourcing, electronic output comprises the bulk of the work that DAPS performs in-house.

To get a clearer picture of DAPS workload, KPMG looked closely at revenue and expense within the outsourcing department. This department is made up of two main functions. The first, work being printed by the Government Printing Office (GPO), is where a customer comes to DAPS with a printing requirement that is determined by DAPS to be outside the scope of

their charter or too large or complex to be efficiently produced in-house. DAPS acts as a conduit between the customer and GPO, who typically outsources the work to a commercial printer, by providing order placement recommendations to the customer and serving as a billing agent between GPO and the customer. According to the FY 1998 National Defense Authorization Act (P.L. 105-85), DAPS is prohibited from imposing a surcharge for providing these services. For the second main function of this department, DAPS serves as a broker of copiers and multifunctional devices for entire organizations. In this role, DAPS collects the requirements for an organization and, through the General Services Administration (GSA), uses the economies of scale generated by consolidating requirements into a larger contract to negotiate less expensive rates for leasing the equipment. For this service, DAPS receives a fee of 5.5% of the contract price.

Since DAPS acts as a go-between in the case of work outsourced through GPO (receiving no revenues other than those passed directly through to GPO) and as a broker for copier and multifunctional device contracts (receiving a fee for the service but passing most of the costs straight through to the equipment vendor), KPMG has recalculated DAPS revenues and expenses removing the “pass through” revenues and expenses associated with GPO outsourcing and copier and multifunctional device contract management. Exhibit 4-7 depicts DAPS FY98 revenues and expenses without the “pass through.”

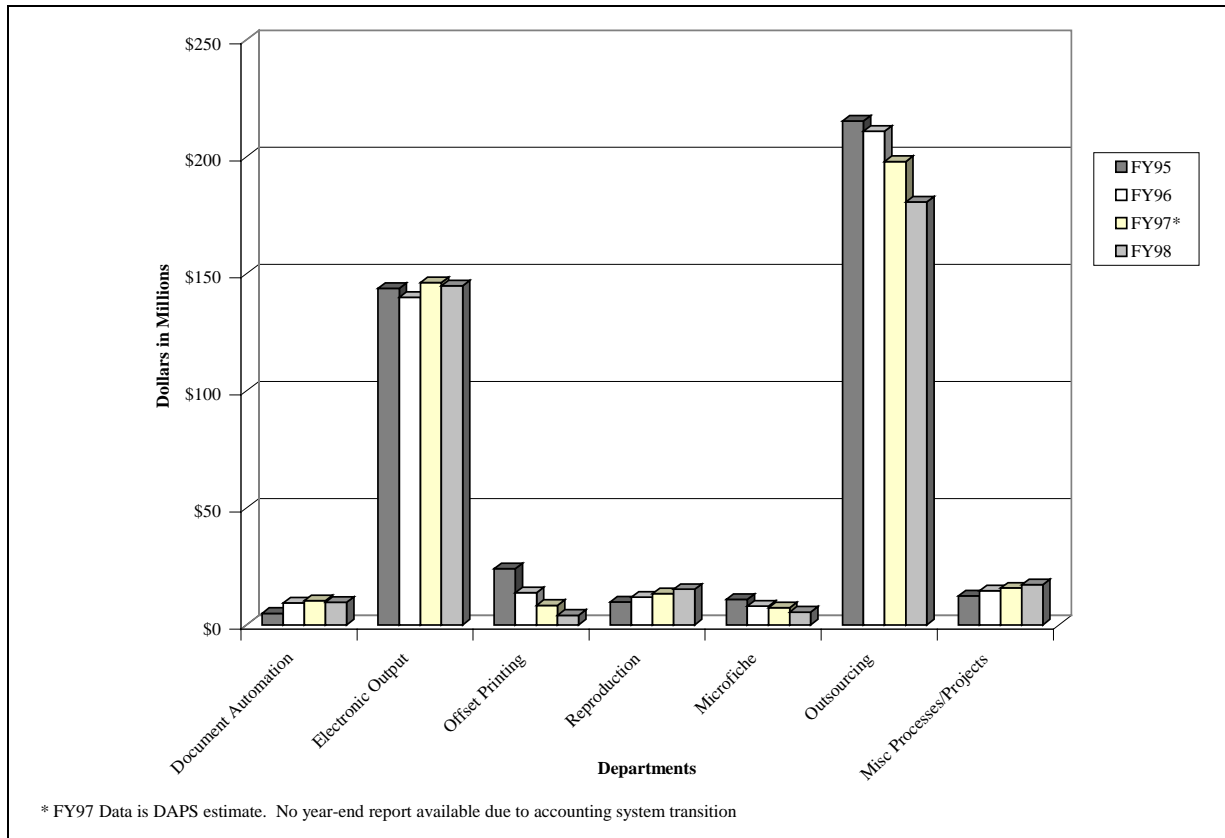
Exhibit 4-7, DAPS FY98 Revenues & Expenses (without “pass through”)



Viewing Exhibit 4-7, the bulk of DAPS in-house revenues and expenses are obviously accrued within the electronic output department. In addition, it can be seen that outsourcing incurs significant losses relative to the amount of revenues and expenses incurred within DAPS. This can be attributed to the fact that DAPS is unable to apply a surcharge to orders outsourced through GPO and must rely only on revenues generated through the surcharge applied to the management of copier and multifunctional device contracts while expenses, predominantly labor and overhead, are accrued for both activities.

In order to gain perspective on the financial trends within DAPS, KPMG gathered DAPS financial records for FY95 through FY97. Exhibit 4-8 illustrates DAPS revenue in each department over the past four years.

Exhibit 4-8, DAPS Departmental Revenue from FY95 – FY98

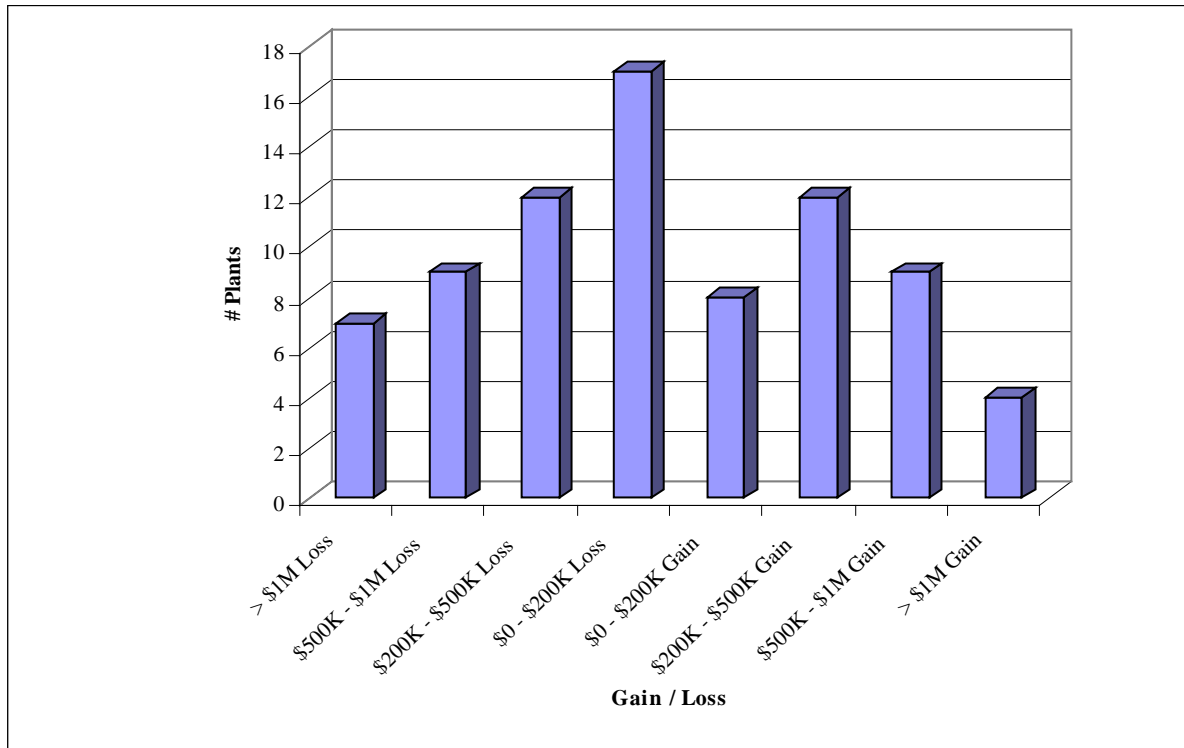


This exhibit indicates that electronic output revenues have held relatively constant over the past four years while outsourcing has declined. In addition, with the exception of the declining amount of offset printing and microfiche production, the other departments have remained a small but steady portion of DAPS revenues.

Another aspect of DAPS financial performance of interest was the financial performance of DAPS plants in FY98. In the DAPS organizational structure, DAPS plants represent the roll-

up of the individual plant's performance along with all sub-plants that report to that plant. Exhibit 4-9 provides a stratified breakout of DAPS plants by profit and loss for FY98.

Exhibit 4-9, DAPS Plant Profitability for Fiscal Year 1998



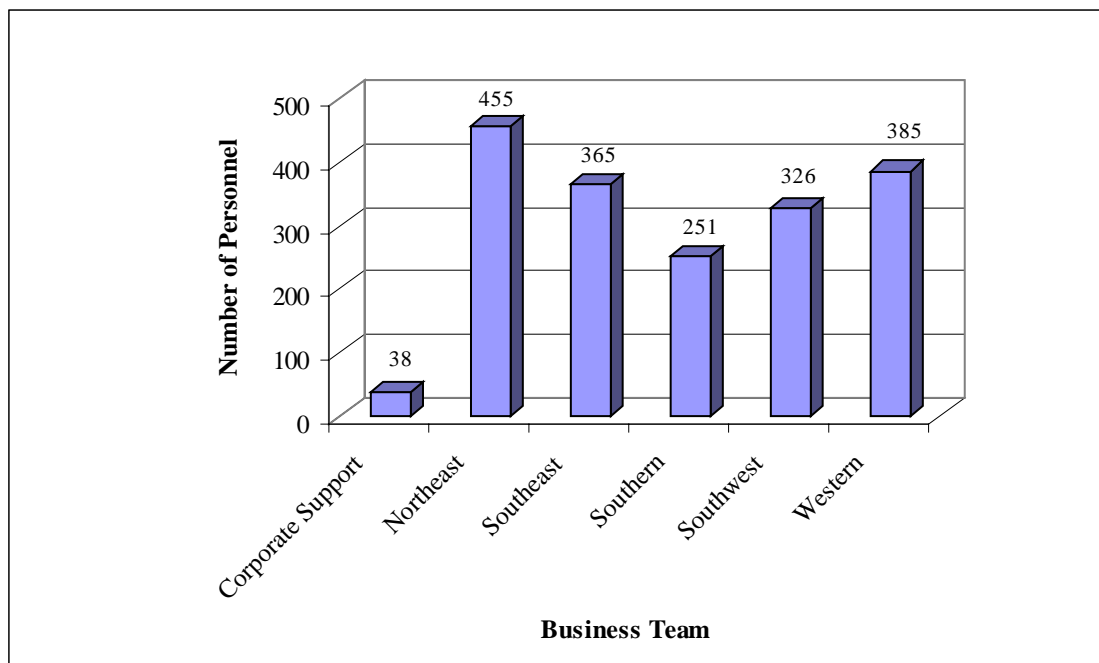
Despite a mandate to break even at the aggregate level each fiscal year, DAPS 78 individual plants vary significantly in terms of profitability with seven plants reporting losses greater than \$1 Million for the year. Not included in this chart are the losses sustained by the Corporate Support Team which reported negative income of roughly \$2.4 Million during FY98 due to the mid-year mandate that DAPS return to its customers all surcharges collected during FY98 for acting as a conduit for GPO outsourced printing.

Personnel

As of September 30, 1998, DAPS consisted of 1,820 employees, of which 71 are Foreign Nationals. DAPS reported that they also augment their workforce with the equivalent of 236 full time contractor employees. Exhibit 4-10 shows the number of employees in each of DAPS five business teams and the Corporate Support Team. On October 1, 1998, the Southern Business Team was realigned with the Southeast and Southwest Business Teams. KPMG assessed the accuracy of the DAPS personnel list by conducting spot checks on its various site visits. These spot checks consisted of reviewing the plant's personnel list with the plant manager during site visits. KPMG found the personnel lists to be reasonably accurate. The complete DAPS personnel list is provided in Appendix C and is grouped by business team and

plant location. The list includes the number of personnel subtotaled for each sub-plant and each business team. As discussed earlier, Exhibit 4-1 illustrates the success DAPS has had in reducing its workforce since FY92.

Exhibit 4-10, DAPS FY98 Personnel by Business Team



Equipment Inventory

As part of the study, KPMG was tasked to provide an assessment of the equipment used at each DAPS site. Although the team did not visit every DAPS location, over 30 sites were visited and “reasonableness” checks to assess the accuracy of the equipment list were conducted during site visits. The initial equipment list provided to KPMG by DAPS was generated from the DWAS. However, this list was found to be incomplete. Another list was requested from, and supplied by, DAPS. Field visits also showed this inventory list to be incomplete and outdated.

KPMG was then supplied with a complete listing that reflected the equipment inventory on hand as of September 30, 1998 for the Northeast and Southeast Business Team’s, and the inventory as of December 1998 for the Southwest and Western Business Team’s. The reasonableness checks that KPMG performed during site visits showed the inventory to be consistent with the equipment lists. Overall, the team’s site visits found that DAPS management at the local level had an accurate accounting of both the equipment in their inventory, and its current status. However, the problems encountered in initially obtaining an accurate inventory list indicate a difficulty to accurately account for equipment on a system-wide level.

Assessment

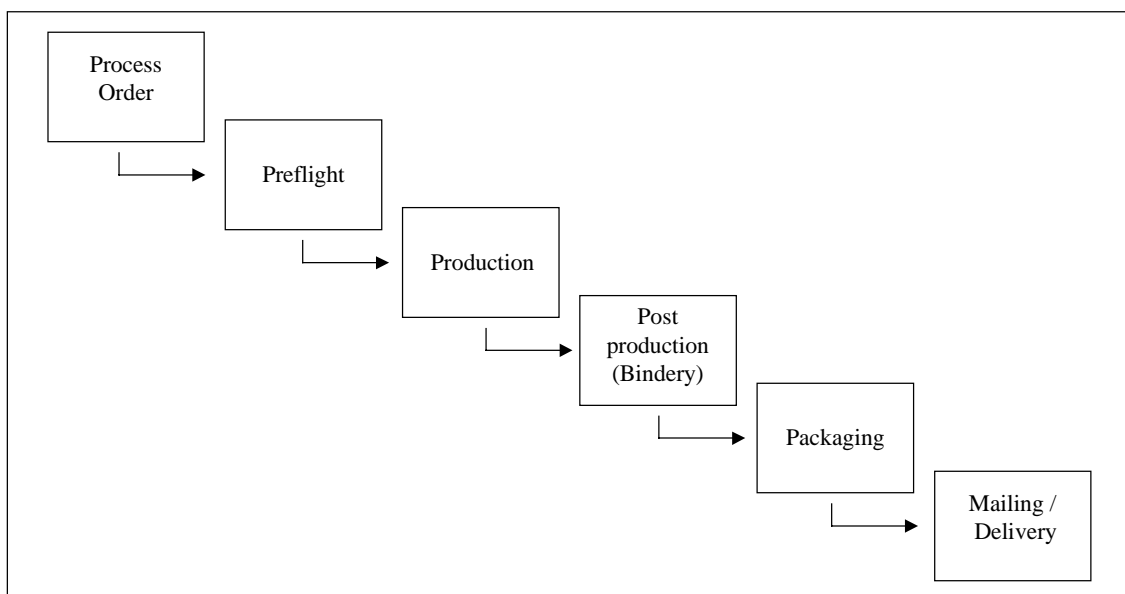
Overall, the production equipment that DAPS sites use is standard for the industry, and comparable (if not identical) to the equipment that was observed in use during visits to non-DAPS printing industry production facilities. A typical DAPS “shop” utilized an electrostatic production printer with an output capacity of 90 to 135 impressions per minute and associated bindery/finishing equipment for drilling, cutting, and stitching output. The DAPS equipment inventory can be found in Appendix D.

DAPS Capacity and Utilization

During the data collection phase, KPMG attempted to ascertain DAPS production capacity, as well as DAPS utilization of their available capacity. Currently, DAPS has no organization-wide process for performing capacity planning or workload optimization with all capacity planning being performed ad hoc at the plant and sub-plant level. In many cases multiple DAPS sites are located in close proximity to each other due to their co-location with military bases.

In an effort to determine DAPS production capacity, KPMG focused on the electronic output function since electronic output represents the bulk of DAPS revenues and expenses. The first step in this process was to examine the manufacturing process that occurs when DAPS receives an order, all the way through final delivery to the customer. Exhibit 4-11 provides a description of the process for a sample order requiring electronic output.

Exhibit 4-11, Example Manufacturing Process for DAPS Electronic Output Orders



When reviewing Exhibit 4-11 it is intuitive to view the production step, which involves large volume printing machines, as the main driver in determining capacity and utilization. However, the entire process, including work volume distribution over time, must be considered when making a capacity and utilization evaluation. During KPMG's interviews with industry, it was noted that capacity and utilization evaluations are best handled at a plant or regional level, and on a customer by customer basis, due to the difficulty in accurately forecasting multiple customers' requirements particularly outside of a single location.

According to industry, it is best to define the production process at the regional or plant level. The customer's needs, including workload peaks and valleys over time, must then be reviewed in the context of this process in order to determine process bottlenecks. The production throughput at these bottlenecks, whether the bottlenecks occur in order processing, production, bindery, or delivery, represent the actual capacity of the process.

KPMG did not perform an in-depth capacity analysis for DAPS sites and thus, detailed utilization rates can not be determined. During interviews with DAPS personnel and site visits, however, KPMG observed that DAPS managers felt that, for many of their smaller sites, in cities of high concentrations of DAPS sites, DAPS had excess capacity. The sites with perceived excess capacity existed for two reasons according to the DAPS managers. First, some of the sites had been recently turned over to DAPS from the Military Services and DAPS is still working with the customer to determine the right level of support (i.e. on-site production versus off-site production with delivery). The second reason DAPS managers provided for sites with perceived excess capacity was that the customers demanded an on-site DAPS presence. Some DAPS managers contended that if they were to shut down the underutilized plant, the customer would contract out for on-site printing services. This rationale did not, however, explain why, in many cases, DAPS has chosen to use a particular piece of printing equipment at a site. At many of the smaller sub-plant sites that KPMG visited, it did not appear that large-enough production peaks were occurring to justify the equipment located at the site.

During interviews with DAPS personnel and industry representatives, the minimum level of production to financially justify equipping a plant with a Xerox Docutech, 5090, 5100, or 4135 (the last three digits of the model number indicate the maximum production volume per minute) was identified as between one and two million impressions per month. Exhibits 4-12 and 4-13 depict the average units produced per month on each piece of production equipment at the Norfolk and Southern California DAPS sites respectively. The Norfolk plants typically operate 42.5 hours per week with the exception of DAPS, Norfolk and AFSC which operate 45 hours per week. This production data was provided to KPMG by DAPS personnel during site visits.

Exhibit 4-12, Norfolk, VA Area Production Equipment Average Monthly Units Produced

Site	Make/Model	FY98 Monthly Average Production
DAPS, Norfolk	Xerox Docutech	1,755,026
	Xerox Docutech	1,920,877
	Xerox 4135	792,765
	Xerox 4135	1,089,690
MEB, Bldg 1500	Xerox Docutech	1,068,844
Fleet Training Center (FTC)	Xerox Docutech	857,124
Naval Surface Warfare Center, Dam Neck	Xerox Docutech	528,567
Naval Medical Center	Kodak 92P	520,298
	Kodak 235	187,331
Little Creek Naval Amphibious Base	Xerox Docutech	421,867
SPAWAR Systems Center	Xerox 5090	414,678
Armed Forces Staff College (AFSC)	Xerox Docutech	350,704
Joint Training, Analysis & Simulation Center (JTASC)	Xerox 5090	343,083
St. Julien's Creek Annex	Xerox Docutech *	285,889
	Xerox 5090	330,104
COMNAVAIRLANT	Xerox 5090	317,719
Naval Air Station Oceana	Xerox 5100	259,023
Norfolk Naval Shipyard	Kodak 300	172,606
Army Corps of Engineers	Xerox 5100	164,229
* Machine active for first 6 months of FY98		

Exhibit 4-13, Southern California Production Equipment Average Monthly Units Produced

Site	Make/Model	FY98 Monthly Average Production
Center, North Island, NAS, San Diego	Xerox 4135	965,268
	Xerox 4135	751,545
	Xerox Docutech	748,816
	Xerox 4135	686,921
	Xerox Docutech	646,128
Center, Point Loma, CA	Xerox Docutech	1,210,920
	Xerox Docutech	670,979
	Xerox Docutech	559,640
DAPS, San Diego, CA	Xerox Docutech	892,395
	Xerox Docutech	846,138
	Xerox 4135	397,401
Center, Camp Pendleton, CA	Xerox Docutech	1,324,253
	Xerox Docutech	562,098
Center, Los Angeles AFB, CA	Xerox Docutech	1,014,441
Center, FISC, San Diego, CA	Xerox Docutech	797,830
Center, NAWAD, Corona	Xerox 4090	205,827
	Danka 2110	124,907
	Oce 9877	118,837
Center, March AFB, CA	Xerox 5390	376,922
	Xerox 5065	22,343
Center, MCAGCC 29 Palms, CA	Xerox 5090	319,646

These production quantities indicate that some DAPS plants and, in particular, sub-plants may be over-capitalized for the monthly production volumes required.

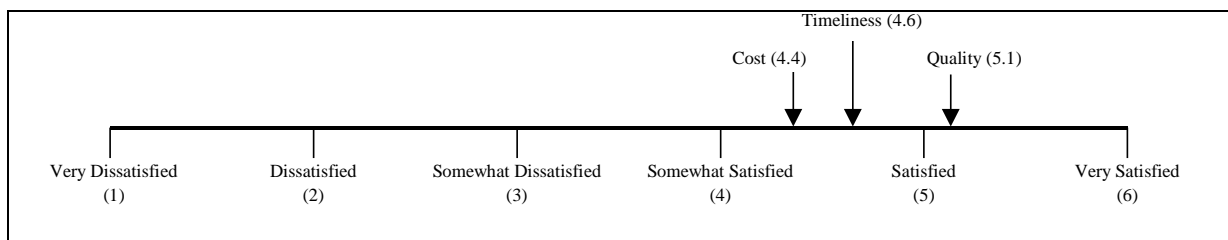
Future Customer Needs

KPMG created a customer survey in order to gain an understanding of the current and future requirements customers have for DAPS. The survey also addressed customer satisfaction, customers' use of other organizations that provide DAPS-like services and customers' willingness to use private industry or another government organization for DAPS-like services. This was not intended to be a "statistically valid" survey. It was intended to collect current and future customer needs as well as customers' perspectives of the DAPS organization. A copy of the customer survey and its results can be located in Appendix E.

Since a non-statistically valid survey was performed, KPMG thought it would be beneficial to additionally contact several high impact and/or high volume customers. The criteria used to determine a "high impact" customer was any customer that generated more than \$500K in revenue for DAPS. A "high volume" customer was chosen where the customer generated the most units for a given cost center. KPMG contacted 38 DAPS customers (representing approximately 17% of DAPS revenue) with 28 customers returning completed surveys.

In 1996, Macro International Inc. (MII) performed a statistically valid Customer Satisfaction Survey for DAPS. Both surveys showed similar results in two areas. The first related to overall customer satisfaction. In the 1996 survey conducted by MII, 56% of the respondents rated overall satisfaction with DAPS as high quality and 37% rated overall satisfaction as acceptable but room for improvement. A similar result of high, overall customer satisfaction can be seen in the survey conducted by KPMG. Exhibit 4-14 represents the overall satisfaction for quality, timeliness and cost for the KPMG survey.

Exhibit 4-14, Overall Satisfaction for KPMG Survey



The second related to customer loyalty to the DAPS organization. Although both surveys returned high results for customer satisfaction, they also showed a low level of loyalty to the DAPS organization. In the 1996 survey conducted by MII, 56% of the respondents said they would very likely or possibly switch to another provider of printing services. According to the KPMG survey, 78% of the respondents said they would switch to a private industry provider and 74% said they would switch to another government organization provided a contract or agreement was in place.

As previously stated, the primary reason for the KPMG customer survey was to gain an understanding of current and future customer requirements of the DAPS organization. In order to obtain current customer uses of DAPS, KPMG provided a list of functions performed by DAPS and asked respondents to indicate the services they use. Exhibit 4-15 shows the number of responses per DAPS function.

Exhibit 4-15, Current Customer Uses of DAPS

DAPS Services	# of Responses
Black & White Duplicating & Printing	24
Color Copying/Printing	17
Mainframe Printing	13
Outsourced Printing Management	13
Copier Contract Management	12
Standardization & Print on Demand	11
Offset Duplicating/Printing	10
Engineering Drawing Reproduction	10
Addressing, Mailing, Delivering	10
Data Scanning & Conversion	8
Microfiche Production	6
Desktop Publishing, Revisions, Proofing	5
Document Automation	5
Lamination	5
Aperture Card Production	3
Metal Photo	3
Other	6

For future customer requirements of the DAPS organization, most customer responses indicated their future requirements would be similar to current requirements with some customers noting the potential for increased document conversion needs. The surveys did not indicate that customers felt that they would undergo significant changes in their requirements. Sample customer responses included:

“Same as at present. Mainframe printing, copier contract management”

“No changes are anticipated at this time”

“Our requirements will not change in the foreseeable future. They are and should remain as shown in Question #1 at the level they are this FY.”

“The level of use should remain relatively constant. However, due to advancements in technology, plus the Paperwork Reduction Act, printing to paper will probably decrease. The increase will be in converting paper documents to digital format (scanned to CD-ROM)”

“No changes are anticipated in types of services currently being received. With increased capability to view on-line reports, we anticipate a decline in mainframe print requirements.”

This view is consistent with the trends in levels of service that DAPS has provided over the past four years (see Exhibit 4-8 for DAPS revenues by Department since fiscal year 1995).

While the respondents to the Customer Survey conducted by KPMG said their future requirements of the DAPS organization were going to remain fairly constant, KPMG believes that customer needs may begin to shift. Some customers touched on the fact that with increased technology and the Paperwork Reduction Act; printing to paper may decrease or be shifted away from traditional printing devices to multifunctional devices. One issue that KPMG noticed with DAPS customers, and industry has seen with its own customers is, the customers are not always fully aware of the printing and document technology capabilities. Through discussions with industry and research on the printing industry, KPMG learned of some new technologies that DAPS customers may require in the near future. Industry is beginning to market themselves as providers of digital document solutions. The industry wants to be able to help customers manage their documents digitally via the internet or with multifunctional devices. These multi-functional devices, along with the internet will allow an employee to scan, store and distribute documents so they may be printed on demand electronically. DAPS customers may need to be made aware of this new technology so they may better plan for the future.

Difference between DAPS CONUS and OCONUS Processes

Although the majority of DAPS processes are similar whether performed in the continental United States (CONUS) or outside of the continental United States (OCONUS), there are three primary differences between the work performed in CONUS and OCONUS.

First, DAPS sites located on foreign military bases are constrained by International Agreements entered into by the United States and the host nation. These agreements impact DAPS primarily by their regulation of the relationship between the U.S. Armed Forces and the foreign nationals they employ. The agreements differ from country to country and require that DAPS managers at foreign military bases be aware of the requirements pertaining to the management of foreign nationals. In FY98, these agreements pertained to roughly 70 foreign nationals working for the Western Business Team and Southeast Business Team.

A second difference between DAPS CONUS and OCONUS processes pertains to the procurement of printing work outside of DAPS. Unlike DAPS CONUS activities which procure work through the Government Printing Office, OCONUS DAPS sites must perform the work in-house or procure the work themselves, since GPO does not service OCONUS locations. The major impact of this is that DAPS Pacific locations perform a sizable amount of in-house offset printing as this type of work is not readily available through procurement. In

Europe, DAPS is better able to procure offset printing work commercially and performs more limited offset printing in-house.

Another difference between DAPS CONUS and OCONUS processes pertains to personnel management. DAPS personnel located outside of the United States receive human resources services (records maintenance, etc.) from the host base. DAPS personnel serving within the United States, however, are serviced by the DLA Administrative Support Center.

Network and Technology Integration

As part of this study the congressional legislation requires KPMG to include a description of the types, and explanation of, the networking and technology integration linking the DAPS sites. There are primarily two configurations for connectivity within and between DAPS sites and their customers: the base Local Area Network (LAN) and the DAPS intranet. DAPS connectivity utilizes both internal “intranets” and external “internets” for the transmission of internal communications, financial and operating data.

DocAccess is a web-based application that allows DAPS customers to submit jobs on-line. At present, there are approximately 90 DAPS locations that offer DocAccess to their customers. Each site has a specially configured server that is networked to the Internet. Customers can then use their own web connection to transmit jobs to their local DAPS site, or any of the other sites where DocAccess is supported. During site visits, DAPS personnel indicated that typically no more than 15% of work is received through DocAccess. They feel that this is primarily due to a lack of customer education.

DAPS has other web based applications that are used to connect themselves with their customers. These applications are primarily used to order government publications for such things as specifications and standards. The Procurement Gateway and ASSIST are two examples of these applications. These applications are managed at the local level.

Base Local Area Network

Since DAPS is a tenant activity at most major U.S. military bases, approximately two-thirds of DAPS locations are able to connect to their host base’s LAN. This allows the sites to exchange information electronically with their local customers. Connection to the base LAN also allows the site access to the Internet.

Those DAPS locations that were unable to access the host base’s LAN have established an Internet connection via a commercial Internet Service Provider (ISP). The DAPS site connects to the ISP either through a dial-up modem connection or through a Frame Relay connection. This does not infer that all DAPS sites have access to the DWAS accounting system. Some sites are tracking and recording jobs manually for input at a later date by personnel at the plant level.

Wide Area Network

DAPS has also taken the initial steps towards establishment of its own organization-wide intranet – a wide area network that operates on its own dedicated telecommunication lines separate from Internet traffic. DAPS has a waiver from DISA in order to establish their own intranet.

There are currently two intranets in use by DAPS. One is the Corporate Support Team Network (CSTNET) which is used for the transmission of internal e-mail and financial data. CSTNET utilizes Frame Relay technology to link its sites. Internet connectivity for the network is achieved via a connection to UUNET. At present, there are seven DAPS sites that are connected to the DAPS CSTNET:

- Charleston
- Fort Belvoir (CST)
- Jacksonville
- Pensacola
- Philadelphia
- Port Hueneme
- San Antonio

A second Intranet was established within the Northeast Business Team (NEBT). This was done because of a need for a dedicated, system to transmit data for various printing and document automation services provided to NEBT customers. The DAPS locations that are networked to the NEBT Intranet include:

- NEBT Philadelphia
- Great Lakes
- Mechanicsburg
- Newport, RI
- Wright Patterson

The locations are connected via a Frame Relay network and are connected to NIPRNET at the Philadelphia and Wright Patterson sites.

DAPS has recognized that recent technological innovations have rapidly changed the environment in which they operate, and as such, have developed an Information Technology Strategic Plan. DAPS long-term goals call for the creation of a system-wide, dedicated Intranet that will be used to transmit e-mail, financial, and operational data.